This record is a partial extract of the original cable. The full text of the original cable is not available.

UNCLAS SECTION 01 OF 02 SANTO DOMINGO 000685

SIPDIS

SENSITIVE

DEPT. FOR WHA/CAR AND EB/ESC;
TREASURY FOR DO: NLEE, RTOLOUI,LLAMONICA;
DEPT PASS TO USTR/S.CRONIN; DEPT PASS TO AID/LAC

E.O. 12958: N/A
TAGS: BTIO ENRG EINV ECON DR
SUBJECT: AES DOMINICANA TO SELL OFF ELECTRICITY
DISTRIBUTION OPERATIONS

¶1. (SBU) SUMMARY: AES Dominicana President Julian Nebreda and local generating facilities President Kevin Manning told DCM and Emboffs on February 3 that Virginia-based AES intends to sell its 50 percent share of Dominican distribution company EdeEste, which AES manages. Nebreda cited monthly losses of $10 million and the bleak outlook for the Dominican electrical sector as the main reasons. AES will keep its investment in generating facilities and will remain the largest energy sector investor in the Dominican Republic. END SUMMARY.

¶2. (SBU) AES Dominicana President Julian Nebreda and local generating facilities manager Kevin Manning called on the DCM and emboffs on February 3 to advise that AES will announce on February 6 the company's plans to sell its 50 percent ownership of EdeEste, the power distribution company which serves the East of the country. Its U.S.-based parent company has made the firm decision and is writing off the investment entirely in its 2003 accounts. Nebreda said the company has already contacted potential buyers. AES would like to sell to a firm that would agree to a award a management contract to AES.

¶3. (U) EdeEste, along with the other two electricity distribution companies, was partially privatized in the late 1990s under the Fernandez administration. Spanish-based Union Fenosa bought fifty percent of EdeSur and EdeNorte; AES bought the same percentage of EdeEste. The government maintained half ownership in each. Last September the GODR repurchase of Union Fenosa's shares led to suspension of the International Monetary Fund Standby Agreement that had been signed in August.

¶4. (SBU) AES officials said Edeste is losing about $10 million a month and that in the present circumstances there are no prospects for the sector improving in the short term. Nebreda noted that consumer collections were at about 90 percent of billing, but if GODR nonpayment is included, the percentage drops to about 83. He said that does not take into account arrears in subsidy payments, unpaid since October. Both Manning and Nebreda expected that consumer collections would drop further, noting the continuing peso depreciaiton and that many customers do not pay when there are frequent blackouts.

¶5. (SBU) Nebreda and Manning predicted that the GODR would intensify its negative campaign against the company after its February 6 announcement. Manning cited January 25 remarks by Finance Minister Calderon on television disputing the government's debt to AES and claiming the company actually owed money to the GODR. They said that the sale will make moot a recent GODR decree requiring the company to

divest
shares in one of the generating companies within the next 60
days.
The decree, initially issued last fall, stated that AES was
in violation
of the Dominican Electricity Law, which limits the amount of
generating
capacity that an entity could own if it also had ownership of
distribution.

COMMENT

¶6. (SBU) AES is widely respected as an effective operator
and an
important voice for the electricity sector. The company has
led efforts
to reform the sector. Its decision to withdraw comes as a
GODR committee is
studying requirements to re-privatize the other two
distribution companies, with
a mandate from President Mejia to propose sale of up to 75
percent of shares.
The AES move will be highly dissuasive to that effort and
will hand the
Mejia administration a vote of no confidence from the private
sector.
The Mejia administration is likely to continue its rhetoric
of recrimination
against generators and against distributors -- assuming that
any private
operator is willing to take over AES shares, the last
remaining private
sector ownership in the bad business of electricity
distribution in the
Dominican Republic.

¶7. (SBU) When Union Fenosa got out last September, the GODR
plunged into
a debt-financed buyback, blowing up its new IMF standby in
the process.
The renewal of the standby is expected, finally, for next
week. Given the
very different operating styles of Union Fenosa and AES as
well as the
administration's long investment of effort in meeting IMF
conditionalities,
we do not -- repeat not -- predict a repeat performance.
HERTELL